

The accounting officer
Thembisile Hani Local Municipality
Private Bag X4041
Empumalanga
0458

30 Nov. 14

Reference: 18004REG13/14

Dear Sir

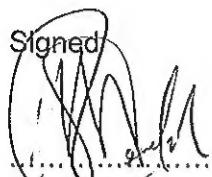
Report of the Auditor-General on the financial statements and other legal and regulatory requirements of Thembisile Hani Local Municipality for the year ended 30 June 2014

1. The above-mentioned report of the Auditor-General is submitted herewith in terms of section 21(1) of the Public Audit Act of South Africa read in conjunction with section 188 of the Constitution of the Republic of South Africa section 121(3) of the Municipal Finance Management Act of South Africa (MFMA)
2. We have not yet received the other information that will be included in the annual report with the audited financial statements and have thus not been able to establish whether there are any inconsistencies between this information and the audited financial statements and the reported performance against pre-determined objectives. You are requested to supply this information as soon as possible. Once this information is received it will be read and should any inconsistencies be identified these will be communicated to you and you will be requested to make the necessary corrections. Should the corrections not be made we will amend and reissue the audit report.
3. In terms of section 121(3) of the MFMA you are required to include the audit report in the municipality's annual report to be tabled.
4. Until the annual report is tabled as required by section 127(2) of the MFMA the audit report is not a public document and should therefore be treated as confidential.
5. Prior to printing or copying the annual report which will include the audit report you are required to do the following:
 - Submit the final printer's proof of the annual report to the relevant senior manager of the Auditor-General of South Africa for verification of the audit-related references in the audit report and for confirmation that the financial statements and other information are those documents that have been read and audited. Special care should be taken with the page references in your report, since an incorrect reference could have audit implications.
 - The signature *Auditor-General* in the handwriting of the auditor authorised to sign the audit report at the end of the hard copy of the audit report should be scanned in when preparing to print the report. This signature, as well as the place and date of signing and the Auditor-General of South Africa's logo, should appear at the end of the report, as in the hard copy that is provided to you. The official logo will be made available to you in electronic format.
6. Please notify the undersigned Senior Manager well in advance of the date on which the annual report containing this audit report will be tabled.

7. Your cooperation to ensure that all these requirements are met would be much appreciated.

Kindly acknowledge receipt of this letter.

Yours sincerely

Signed


.....
Senior Manager: Mpumalanga

Enquiries: Daniel Radebe

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Fax: (013) 756 0879

Auditor's report

Thembisile Hani Local Municipality

30 June 2014

Report of the auditor-general to the Mpumalanga Provincial Legislature and the council on the Thembisile Hani Local Municipality

Report on the financial statements

Introduction

1. I have audited the financial statements of the Thembisile Hani Local Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2014, the statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget information with actual information for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2013 (Act No. 2 of 2013) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-general's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the general notice issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

Basis for qualified opinion

Aggregation of immaterial uncorrected misstatements

6. The financial statements were materially misstated in the prior period due to the cumulative effect of numerous individually immaterial uncorrected misstatements. My opinion for the period ended 30 June 2013 was modified accordingly. My opinion on the current period is also modified for the following elements making up the statement of financial position because of the possible effect of this on the comparability of the current period's figure:
 - Property, plant and equipment reflected as R1 603 584 350 (2013: R1 622 197 944) was understated by R9 224 285.
 - Receivables in comparative figures reflected as R3 476 766 were understated by R13 915 738.
 - Work in progress in comparative figures reflected as R55 057 792 was overstated by R18 300 017.

Qualified opinion

7. In my opinion, except for the effects of the matters described in the basis for qualified opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Thembisile Hani Local Municipality as at 30 June 2014 and its financial performance and cash flows for the year then ended, in accordance with SA Standards of GRAP and the requirements of the MFMA and DoRA.

Emphasis of matters

8. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Material losses

9. As disclosed in note 25 to the financial statements, material losses of R76 916 613 were incurred as a result of water distribution losses and theft.

Material impairments

10. As disclosed in note 6 to the financial statements, the receivables balance was significantly impaired. The impairment of consumer debtors amounted to R292 840 513 (2013: R148 172 394), which represented 98% (2013: 68%) of the total consumer debtors. The contribution to the provision for debt impairment was R144 668 119 (2013: R170 527 322).

Additional matter

11. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Unaudited disclosure notes

12. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and, accordingly, I do not express an opinion thereon.

Report on other legal and regulatory requirements

13. In accordance with the PAA and the general notice issued in terms thereof, I report the following findings on the reported performance information against predetermined objectives for selected development priorities presented in the annual performance report, non-compliance with legislation as well as internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

Predetermined objectives

14. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected development priorities presented in the annual performance report of the municipality for the year ended 30 June 2014:
 - Development priority 1: service delivery and infrastructure development on pages ... to ...
 - Development priority 2: basic service delivery on pages ... to ...
15. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
16. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned development priorities. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's *Framework for managing programme performance information*.
17. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
18. I did not raise any material findings on the usefulness and reliability of the reported performance information for the selected development priorities.

Additional matter

19. Although I raised no material findings on the usefulness and reliability of the reported performance information for the selected development priorities, I draw attention to the following matter:

Achievement of planned targets

20. Refer to the annual performance report on pages ... to ... for information on the achievement of the planned targets for the year.

Compliance with legislation

21. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

Budgets

22. Expenditure was incurred in excess of the limits of the amounts provided for in the votes of the approved budget, in contravention of section 15 of the MFMA.

Annual financial statements, performance report and annual report

23. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Some material misstatements of current assets, liabilities and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected, but the uncorrected material misstatements resulted in the financial statements receiving a qualified audit opinion.

Expenditure management

24. Reasonable steps were not taken to prevent unauthorised and irregular expenditure, as required by section 62(1)(d) of the MFMA.

Conditional grants received

25. The allocation of the municipal infrastructure grant was not spent in accordance with the applicable grant framework, in contravention of section 16(1) of DoRA.

Revenue management

26. An effective system of internal control for revenue was not in place, as required by section 64(2)(f) of the MFMA.

Internal control

27. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with legislation. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the basis for the qualified opinion and the findings on compliance with legislation included in this report.

Leadership

28. The accounting officer did not exercise oversight responsibility regarding financial and performance reporting, compliance and related internal controls.

Financial and performance management

29. The municipality did not prepare regular, accurate and complete financial and performance reports that were supported and evidenced by reliable information.
30. Management did not review and monitor compliance with applicable laws and regulations.
31. Management did not ensure controls over daily and monthly processing and reconciling of transactions.

Governance

32. The audit committee operated effectively during the current period as per their legislated mandate. Recommendations were made to management to improve internal controls and ensure reliable reporting of financial and performance information as well as compliance with legislation. However, this did not result in improved controls, due to management not implementing the recommendations.

Other reports

Investigations

33. Various investigations into maladministration by some senior managers were conducted during the year. These resulted in disciplinary hearings, which led to the dismissal of one of the senior managers.

Auditor-General

Mbombela

30 November 2014



AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence